

Attachment 23

Keyser Marston Associates Peer Review of Fiscal Impact Analysis



KEYSER MARSTON ASSOCIATES.
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
DEBBIE M. KERN
REED T. KAWAHARA
DAVID DOEZEMA

LOS ANGELES
KATHLEEN H. HEAD
JAMES A. RABE
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM
JULIE L. ROMEO

SAN DIEGO
PAUL C. MARRA

To: Ruth Shikada
City of Santa Clara

From: Keyser Marston Associates

Date: June 2, 2016

Subject: Peer Review of City Place Fiscal Impact Analysis

In accordance with your request, Keyser Marston Associates, Inc. (KMA) has performed a peer review of the City Place Fiscal Impact Analysis submitted to the City dated May 24, 2016. The Fiscal Impact Analysis was performed by a consultant team comprised of Seifel Consulting and Economic & Planning Systems (EPS) under contracts with Related Santa Clara, the developer of the proposed project (Related). This memorandum provides a summary of KMA's peer review and the conclusions drawn therefrom.

In summary and as further discussed in this memorandum, KMA concludes that the Fiscal Impact Analysis represents a reasonable projection of the project's fiscal impacts on the City of Santa Clara's General Fund. As noted in the Fiscal Impact Analysis, the project is estimated to generate a positive net fiscal benefit for the City's General Fund ranging from \$6.5 million per year (Minimum Development Project) to \$16.9 million per year (Proposed Project), expressed in current 2016 dollars. Other scenarios analyzed include a Minimum Development Full Build-Out scenario and a "Best Efforts" Development scenario¹. Specific programmatic differences are detailed later in this memorandum.

Net Fiscal Benefit by Development Scenario		
	Total Building Area	Net Fiscal Benefit
Proposed Project	9.2 million sf	\$16.9 million/year
Best Efforts	2.4 million sf	\$10.3 million/year
Minimum Development Full Build-Out	4.6 million sf	\$8.3 million/year
Minimum Development	1.6 million sf	\$6.5 million/year

¹ The "Minimum Development Full Build-Out" scenario was added by KMA to round out the range of the project's potential fiscal impacts.

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Introduction

A fiscal impact analysis is a commonly performed economic analysis of the fiscal impacts generated by new development projects. The underlying principle is that the project will bring new employees, residents, and visitors to the City of Santa Clara which will generate ongoing public revenues for the benefit of the City but will also have incremental demands on City service costs. The Fiscal Impact Analysis estimates public revenues that the project will generate for the City's General Fund such as property taxes, sales taxes, transient occupancy (hotel) taxes, etc. as well as public costs to the General Fund such as emergency services costs (police, fire), public infrastructure maintenance costs, as well as additional costs for Parks & Rec, Library, and general city administrative costs. The public services cost estimates rely upon data from the City's 2015-16 City budget as well as on the input from certain City departments including Police, Fire, and Public Works.

In undertaking this peer review, KMA has completed the following tasks:

- Performed a comprehensive review of the Fiscal Impact Analysis submitted by EPS including the detailed revenue and cost assumptions and projections;
- Performed an independent assessment of current market conditions and economic factors in order to assess the reasonableness of the inputs and assumptions;
- Confirmed the reasonableness of the Fiscal Impact Analysis methodologies for calculating incremental public service costs based on industry standard practices;
- Participated in several meetings with Related and various City departments regarding the public service needs for the project; and
- Participated in a work session with EPS to review the Fiscal Impact Analysis methodologies and assumptions and to discuss appropriate revisions to their document.

Project Summary

As proposed, City Place will be a major new mixed-use development project located on the north side of the City of Santa Clara on a city-owned site currently improved with the City's municipal golf course and a bike track. A large portion of the project will be built atop a landfill, which will result in unique structural and operational requirements and will have unique impacts on some public services costs.

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Pursuant to the proposed ground lease and Disposition and Development Agreement (DDA) between Related and the City of Santa Clara, the project is proposed to be comprised of approximately 9.2 million square feet of development including retail, office, hotel, and residential uses. The transaction documents between Related and the City recognize that real estate markets are fluid and that future changes in market conditions (rents, sale prices, construction costs, debt and equity markets, etc.) may dictate changes to the project that is ultimately built. However, the transaction documents do require Related to build at least a "Minimum Development" project, which is specified in the table below along with two other development scenarios. Phases 1-3 comprise the "City Center" portion of the project, which is the project's mixed use core.

Development Scenarios (building square feet)
Santa Clara City Place

	Phases 1-3	Phases 4-8	Total Project
<u>Proposed Project</u>			
Office	578,000	5,146,400	5,724,400
Retail/Commercial	1,472,500	29,500	1,502,000
Residential	1,360,000	0	1,360,000
Hotel	578,000	0	578,000
Total Sq. Ft.	3,988,500	5,175,900	9,164,400
<u>Best Efforts</u>			
Office	458,000	0	458,000
Retail/Commercial	1,472,000	0	1,472,000
Residential	200,000	0	200,000
Hotel	255,000	0	255,000
Total Sq. Ft.	2,385,000	0	2,385,000
<u>Min. Development Full Build-Out</u>			
Office	340,000	3,000,000	3,340,000
Retail/Commercial	800,000	0	800,000
Residential	200,000	0	200,000
Hotel	210,000	0	210,000
Total Sq. Ft.	1,550,000	3,000,000	4,550,000
<u>Minimum Development</u>			
Office	340,000	0	340,000
Retail/Commercial	800,000	0	800,000
Residential	200,000	0	200,000
Hotel	210,000	0	210,000
Total Sq. Ft.	1,550,000	0	1,550,000

It is noted that very recent to the date of this memorandum, Related proposed a change to the project's land plan which involves converting approximately 35 acres on the north side of the property from an office development to a public park use. Under this change, Related would allow these 35 acres to be a publicly owned park and would contribute \$5 million to the funding of its planning and capital costs. Notably, because the City does

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not yet know what the nature of this park space will be (i.e. active recreational uses such as ballfields or more passive park open space), the Fiscal Impact Analysis does not attempt to estimate the City's costs for this parcel. As such, from a fiscal impact point of view the 35-acre park is being treated as a separate project from City Place.

In addition, although it is undetermined at this time how the introduction of the 35-acre park will affect the other parcels on the site, it is anticipated that the 9.2 million square feet of development can be accommodated on the remaining parcels through a reconfiguration of building and parking layouts.

General Fund Revenues

The Fiscal Impact Analysis includes projections for property taxes, sales taxes, transient occupancy (hotel) taxes, and property taxes in lieu of vehicle license fee (VLF). These projections require a set of assumptions including estimates of assessed values, taxable sales volumes, hotel room rates and occupancy rates, etc. KMA has reviewed the assumptions utilized in the Fiscal Impact Analysis and conclude they are within a reasonable range of what can be expected for the proposed project. Two other sources of revenue generated by the project have been quantified in the analysis but do not benefit the General Fund because the revenues are dedicated for certain other costs (CFD assessment revenue) or they are not a long-term recurring revenue source (one-time sales taxes generated from project construction). These revenues are shown in the Fiscal Impact Analysis but are informational only.

It is noted that the Fiscal Impact Analysis does not quantify potential General Fund revenues from franchise taxes, business licenses, or miscellaneous charges, fines, and penalties. These revenues sources are small relative to the other tax revenue sources; nonetheless the exclusion of these revenues from the analysis does represent a conservative approach.

The projected General Fund revenues are summarized in the following table. Since the transaction documents specify that certain portions of the Minimum Development project can be either office or hotel, for purposes of the Fiscal Impact Analysis the Minimum Development Project is assumed to include office rather than hotel use (where an option is available). Because of the significant revenues that are generated by hotel taxes, this is the more conservative assumption.

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**Annual General Fund Revenues
Santa Clara City Place**

	Phases 1-3	Phases 4-8	Total Project
<u>Proposed Project</u>			
Property Tax/Possessory Interest	\$2,501,000	\$3,371,000	\$5,872,000
Sales Tax	\$7,011,000	\$138,000	\$7,149,000
Transient Occupancy Tax	\$5,779,000	\$0	\$5,779,000
Prop Tax in lieu of VLF	\$828,000	\$1,116,000	\$1,944,000
Total (annual)	\$16,119,000	\$4,625,000	\$20,744,000
<u>Best Efforts</u>			
Property Tax/Possessory Interest	\$1,591,000	\$0	\$1,591,000
Sales Tax	\$7,011,000	\$0	\$7,011,000
Transient Occupancy Tax	\$2,899,000	\$0	\$2,899,000
Prop Tax in lieu of VLF	\$527,000	\$0	\$527,000
Total (annual)	\$12,028,000	\$0	\$12,028,000
<u>Min. Development Full Build-Out</u>			
Property Tax/Possessory Interest	\$1,016,000	\$1,953,000	\$2,969,000
Sales Tax	\$3,813,000	\$0	\$3,813,000
Transient Occupancy Tax	\$2,387,000	\$0	\$2,387,000
Prop Tax in lieu of VLF	\$336,000	\$647,000	\$983,000
Total (annual)	\$7,552,000	\$2,600,000	\$10,152,000
<u>Minimum Development</u>			
Property Tax/Possessory Interest	\$1,016,000	\$0	\$1,016,000
Sales Tax	\$3,813,000	\$0	\$3,813,000
Transient Occupancy Tax	\$2,387,000	\$0	\$2,387,000
Prop Tax in lieu of VLF	\$336,000	\$0	\$336,000
Total (annual)	\$7,552,000	\$0	\$7,552,000

General Fund Expenditures

The Fiscal Impact Analysis estimates annual General Fund expenditures totaling \$3.8 million for the Proposed Project, with Police costs representing the largest cost by a wide margin. Several expenditure categories have been estimated based on the assumption that the City's current service costs (from the 2015-16 Budget) will be maintained on a per-capita or per-resident equivalent basis. This assumption has been applied to the categories of General Government, Planning and Inspection, Library, and Recreation costs. The analysis takes into account the fact that not all of the City's costs are variable costs; that is, some of the City's administrative costs are relatively fixed and will not need to increase proportionate to the increase in resident or employee population (certain offsetting departmental revenues are also accounted for accordingly).

The following includes a brief discussion of the costs for Public Works, Parks, Fire, and Police as these categories merited special consideration for the City Place project.

- a) *Public Works.* The primary impacts on the City's Public Works costs relate to street maintenance costs. The street maintenance costs have been estimated based on the resident and employee population in the project as adjusted to reflect the fact that many of the streets within the project will be privately owned and maintained. This cost methodology has been utilized rather than the alternative cost per public-street-mile basis, which would yield a lower cost, because it is believed to better reflect the higher road impacts resulting from the higher development densities of City Place.
- b) *Parks.* Pursuant to the transaction documents for the proposed project, Related will be responsible for providing numerous on-site park spaces to serve the project's employees, visitors, and residents. Ongoing maintenance costs of all on-site park spaces will be privately funded. Because of the extent of park spaces included within City Place, it is expected that the project will have a negligible impact on parks elsewhere in the City. It is noted that, unlike parks, the project is expected to have some impacts on the City's recreation programs, which have been estimated on a per resident basis.
- c) *Fire Department.* Based on discussions with the City's Fire Department and on recent staffing studies the department has recently performed, it is believed that existing capacity within the department is sufficient to serve the basic fire and emergency services needs of the project without an additive cost. However, at the current time the Fire Department believes that developing on top of the existing landfill will require the acquisition of specialized equipment and ongoing funding of associated personnel to adequately address potential hazardous materials incidents related to the landfill. The transaction costs specify that, should this specialized equipment and personnel ultimately be needed, the costs will be paid by Related and will not be an impact on the General Fund. Therefore, the project is not expected to have cost impacts on the Fire Department.
- d) *Police Department.* Based on discussions with the City's Police Department, it is estimated that the City Place project will require the equivalent of eight full time equivalent police officers. This estimate was made in part through discussions the Police Department has had with the San Jose Police Department regarding the costs associated with policing Santana Row, another mixed use destination retail/entertainment center in the region. It is recognized that the impacts are difficult for the Police Department to estimate with certainty however because of a number of variables that are hard to predict including: (1) the specific roles and responsibilities of the project's private security force, (2) the mix of retail tenants especially bars and late-night restaurants and entertainment venues, and (3) the

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number and nature of special events drawing large crowds, such as events that might be tied to events at Levi's Stadium.

The following summarizes the estimated recurring annual expenditures on the City's General Fund.

Annual General Fund Expenditures
Santa Clara City Place

	Phases 1-3	Phases 4-8	Total Project
<u>Proposed Project</u>			
General Government	\$252,000	\$395,000	\$647,000
Library	\$113,000	\$0	\$113,000
Planning and Inspection	\$65,000	\$101,000	\$166,000
Public Works	\$164,000	\$256,000	\$420,000
Recreation	\$96,000	\$0	\$96,000
Police	\$2,368,000	\$0	\$2,368,000
Total (annual)	\$3,058,000	\$752,000	\$3,810,000
<u>Best Efforts</u>			
General Government	\$128,000	\$0	\$128,000
Library	\$17,000	\$0	\$17,000
Planning and Inspection	\$32,000	\$0	\$32,000
Public Works	\$83,000	\$0	\$83,000
Recreation	\$14,000	\$0	\$14,000
Police	\$1,480,000	\$0	\$1,480,000
Total (annual)	\$1,754,000	\$0	\$1,754,000
<u>Min. Development Full Build-Out</u>			
General Government	\$87,000	\$229,000	\$316,000
Library	\$17,000	\$0	\$17,000
Planning and Inspection	\$22,000	\$59,000	\$81,000
Public Works	\$56,000	\$149,000	\$205,000
Recreation	\$14,000	\$0	\$14,000
Police	\$888,000	\$296,000	\$1,184,000
Total (annual)	\$1,084,000	\$733,000	\$1,817,000
<u>Minimum Development</u>			
General Government	\$87,000	\$0	\$87,000
Library	\$17,000	\$0	\$17,000
Planning and Inspection	\$22,000	\$0	\$22,000
Public Works	\$56,000	\$0	\$56,000
Recreation	\$14,000	\$0	\$14,000
Police	\$888,000	\$0	\$888,000
Total (annual)	\$1,084,000	\$0	\$1,084,000

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Net Fiscal Impacts

Based on the aforementioned analysis, the following summarizes the net fiscal impacts from the City Place project

Net Annual Fiscal Impact Santa Clara City Place

	Phases 1-3	Phases 4-8	Total Project
<u>Proposed Project</u>			
General Fund Revenues	\$16,119,000	\$4,625,000	\$20,744,000
(Less) General Fund Expenditures	(\$3,058,000)	(\$752,000)	(\$3,810,000)
Net Fiscal Impact (annual)	\$13,061,000	\$3,873,000	\$16,934,000
<u>Best Efforts</u>			
General Fund Revenues	\$12,028,000	\$0	\$12,028,000
(Less) General Fund Expenditures	(\$1,754,000)	\$0	(\$1,754,000)
Net Fiscal Impact (annual)	\$10,274,000	\$0	\$10,274,000
<u>Min. Development Full Build-Out</u>			
General Fund Revenues	\$7,552,000	\$2,600,000	\$10,152,000
(Less) General Fund Expenditures	(\$1,084,000)	(\$733,000)	(\$1,817,000)
Net Fiscal Impact (annual)	\$6,468,000	\$1,867,000	\$8,335,000
<u>Minimum Development</u>			
General Fund Revenues	\$7,552,000	\$0	\$7,552,000
(Less) General Fund Expenditures	(\$1,084,000)	\$0	(\$1,084,000)
Net Fiscal Impact (annual)	\$6,468,000	\$0	\$6,468,000